DME LIMITED and subsidiaries

Interim Condensed Consolidated
Financial Information
For the Six-Month Period Ended
30 June 2017 (unaudited)

DME LIMITED AND SUBSIDIARIES

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DME LIMITED AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

Management is responsible for the preparation of the interim condensed consolidated financial information that presents the financial position of DME Limited (the "Company") and its subsidiaries (the "Group") as of 30 June 2017 and the consolidated results of its operations, cash flows and changes in equity for the six-month period then ended, in compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

In preparing the interim condensed consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial information of the Group complies with IAS 34;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the companies of the Group operate;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information for the six-month period ended 30 June 2017 was approved by management on 27 October 2017.

On behalf of management:

Elena Batsunova Chief Executive Officer	Natalya Adler Chief Financial Officer

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To: Shareholders of DME Limited

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of DME Limited and its subsidiaries (the "Group") as of June 30, 2017 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Deloitte & Touche

Moscow, Russia

27 October 2017

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DME LIMITED AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017 (UNAUDITED)
(Amounts in millions of Russian Rubles, unless otherwise stated below)

	Notes	2017	2016
Revenue	6	18,340	17,757
Operating expenses, net	7	(13,710)	(13,085)
Operating profit		**4,630**	**4,672**
Interest expense	8	(175)	(317)
Interest income		126	168
Foreign exchange gain/(loss), net		115	(69)
Profit before income tax		**4,696**	**4,454**
Income tax	9	(1,015)	(782)
Profit and comprehensive income for the period		**3,681**	**3,672**
Profit and total comprehensive income attributable to:			
Owners of the Company		3,707	3,649
Non-controlling interests		(26)	23
		3,681	**3,672**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Natalya Adler
Chief Financial Officer

27 October 2017

The accompanying notes form an integral part of this interim condensed consolidated financial information.

DME LIMITED AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2017 (UNAUDITED)

(Amounts in millions of Russian Rubles)

	Notes	30 June 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	10	71,399	65,300
Investment property	10	532	542
Advances for acquisition of non-current assets	10	2,156	2,375
Intangible assets	11	4,883	5,041
Deferred tax asset		1,554	1,245
Amounts due from grantor under a concession agreement	13	163	206
Long-term finance lease receivable	14	258	246
Other non-current assets	12	1,801	1,866
Total non-current assets		**82,746**	**76,821**
Current assets			
Inventory	17	1,490	1,641
Trade and other receivables	16	3,011	2,690
Prepayments and other current assets	18	3,957	4,038
Prepaid income tax		1,073	1,035
Short-term finance lease receivable	14	154	146
Short-term investments	15	2,513	27
Cash and cash equivalents	19	8,290	14,306
Total current assets		**20,488**	**23,883**
TOTAL ASSETS		**103,234**	**100,704**
EQUITY AND LIABILITIES			
Capital			
Share capital	20	11,877	11,877
Retained earnings	20	33,996	33,108
Equity attributable to owners of the Company		45,873	44,985
Non-controlling interests		(36)	(10)
Total equity		**45,837**	**44,975**
Non-current liabilities			
Five-year USD loan participation notes, long-term portion	21	33,438	34,335
Borrowings	22	1,738	2,017
Deferred tax liability		5,477	5,229
Amounts due to grantor under a concession agreement, long-term portion	13	3,135	3,135
Total non-current liabilities		**43,788**	**44,716**
Current liabilities			
Trade and other payables	23	5,379	4,919
Accrued expenses and other current liabilities	25	2,143	1,903
Interest payable on five-year USD loan participation notes	21	398	384
Borrowings	22	986	1,155
Taxes other than income tax payable	24	1,179	1,088
Amounts due to grantor under a concession agreement, short-term portion	13	263	250
Income tax payable		1,241	1,314
Dividends payable	20	2,020	-
Total current liabilities		**13,609**	**11,013**
TOTAL EQUITY AND LIABILITIES		**103,234**	**100,704**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Natalya Adler
Chief Financial Officer

27 October 2017

The accompanying notes form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017 (UNAUDITED)

(Amounts in millions of Russian Rubles)

	2017	2016
Cash flows from operating activities:		
Profit before income tax	**4,696**	**4,454**
Adjustments for:		
Depreciation and amortization	1,720	1,543
Change in provision for impairment of accounts receivable, advances to suppliers and advances for acquisition of non-current assets	3	33
Interest income	(126)	(168)
Interest expense	175	317
Foreign exchange gain/(loss), net	(115)	69
Other non-cash items, net	125	82
	6,478	**6,330**
Decrease in inventory	159	25
Increase in trade and other receivables	(441)	(460)
Decrease/(increase) in prepayments and other current assets	98	(702)
Decrease in trade and other payables	(327)	(217)
Increase in taxes other than income tax payable	91	307
Increase in accrued expenses and other current liabilities	122	158
Net cash from operating activities before income tax	**6,180**	**5,441**
Interest paid	(1,199)	(1,190)
Income tax paid	(1,188)	(1,020)
Cash provided by operating activities	**3,793**	**3,231**
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,314)	(4,782)
Purchases of intangible assets	(204)	(317)
Proceeds from disposal of property, plant and equipment	29	345
Purchases of investments	(2,486)	(985)
Proceeds from disposal of investments	18	12,646
Proceeds from grantor under a concession agreement	50	139
Interest received	104	94
Net cash (used in)/generated from investing activities	**(7,803)**	**7,140**
Cash flows from financing activities:		
Repayments of borrowings	(599)	(4,103)
Proceeds from borrowings	-	858
Dividends paid (Note 20)	(925)	(2,343)
Other distribution to shareholders	-	(14)
Other	(6)	-
Net cash used in financing activities	**(1,530)**	**(5,602)**
Net (decrease)/increase in cash and cash equivalents	**(5,540)**	**4,769**
Cash and cash equivalents at beginning of the period	**14,306**	**4,783**
Foreign exchange loss on cash and cash equivalents	(476)	(2,078)
Cash and cash equivalents at end of the period (Note 19)	**8,290**	**7,474**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Natalya Adler
Chief Financial Officer

27 October 2017

The accompanying notes form an integral part of this interim condensed consolidated financial information.

DME LIMITED AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017 (UNAUDITED)
(Amounts in millions of Russian Rubles)

	Share capital	Loans issued to the owners of the Company	Retained earnings	Equity attributable to the owners of the Company	Non-controlling interests	Total
Balance as of 1 January 2016	**11,877**	**-**	**42,573**	**54,450**	**101**	**54,551**
Profit and comprehensive income for the period	-	-	3,649	3,649	23	3,672
Loan issued to shareholder		(8,542)		(8,542)		(8,542)
Dividends	-	-	-	-	(150)	(150)
Other distribution to shareholders		-	(14)	(14)		(14)
Balance as of 30 June 2016	**11,877**	**(8,542)**	**46,208**	**49,543**	**(26)**	**49,517**
Balance as of 1 January 2017	**11,877**	**-**	**33,108**	**44,985**	**(10)**	**44,975**
Profit and comprehensive income for the period	-	-	3,707	3,707	(26)	3,681
Dividends (Note 20)	-	-	(2,819)	(2,819)	-	(2,819)
Balance as of 30 June 2017	**11,877**	**-**	**33,996**	**45,873**	**(36)**	**45,837**

On behalf of management:

Elena Batsunova
Chief Executive Officer

Natalya Adler
Chief Financial Officer

27 October 2017

The accompanying notes form an integral part of this interim condensed consolidated financial information.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

1. NATURE OF THE BUSINESS

DME Limited (previously FML Limited, hereinafter the "Company"), is a limited liability company incorporated under the laws of the Isle of Man in February of 2001. Immediately following the formation of the Company an entity under common control transferred to the Company a number of entities operating as a group since 1996. The assets and liabilities of the entities were transferred to the Company at their previous carrying amounts. In 2012 the Company transferred its registered office and place of domicile to the Republic of Cyprus.

The principal activities of the Company, together with its subsidiaries (collectively the "Group") are the management, operation and development of Domodedovo airport, including servicing international and domestic passenger and cargo flights. The Group sells fuel and pre-packaged meals as well as provides airport-related commercial services comprising leasing of retail space, leasing of other commercial properties and fuelling services. The Group's principal place of business is Domodedovo airport in the Moscow region, Russia.

The Group operates in three business segments: aviation services, auxiliary aviation services and commercial services.

The immediate parent in relation to DME Limited is DME Stichting Administratiekantoor ("DME Administrative Foundation"), a foundation organized and existing under the laws of Netherlands. Together with Atlant Foundation, a private foundation established and governed under the laws of Malta, they own 100% of the issued share capital of DME Limited.

The ultimate controlling party of the Group is Mr. Dmitry Kamenshchik.

The interim condensed consolidated financial information of the Group for the six-month period ended 30 June 2017 was authorized for issue by management on 27 October 2017.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Statement of compliance

These financial information have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting.

These financial information do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2016 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts which have not changed significantly in amount or composition.

Exchange rates for the currencies in which the Group transacts were as follows:

	30 June 2017	31 December 2016
Closing exchange rates – RUR		
1 U.S. Dollar ("USD")	59.09	60.66
1 Euro	67.50	63.81

	30 June 2017	30 June 2016
Average exchange rates for the six months ended – RUR		
1 USD	57.95	70.10
1 Euro	62.69	78.25

Seasonality

(Amounts in millions of Russian Rubles, unless otherwise stated below)

The business of the Group is subject to significant seasonal fluctuations in its operations, such as a significant increase in passenger traffic in the summer months and September, typically peaking in August, and a decrease in passenger traffic in the first three months of the calendar year, typically reaching the lowest point in February. Fluctuations in the levels of passenger traffic have a strong correlation with the Group's revenue from current operations. In addition, these fluctuations have an effect on trade and other receivables and cash and cash equivalents, with receivables decreasing in August to September and cash and cash equivalents simultaneously increasing, while the pattern is reversed in January to February when receivables increase, while cash and cash equivalents decrease as airlines often experience shortage of cash to pay for services rendered during these months. In addition, because of fluctuations in the levels of passenger traffic, increases in tariffs by the Federal Tariff Service ("FTS") have a larger impact on revenue when increases in tariffs occur prior to the peak months of the year in terms of passenger traffic (June through September). In accordance with IFRS, revenue and the related expenses are recognized in the period in which they are realized and incurred, respectively. The Group's results for the interim period do not necessarily reflect a continuing trend which will be reflected in the year-end results.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements as of 31 December 2016 and for the year then ended.

During the six-month period ended 30 June 2017 there were no changes in the accounting standards that had significant effect on the Group's financial position and performance arising from the adoption of new standards.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for 2016 prepared in accordance with IFRS.

4. RECLASSIFICATION

Certain information for the six-month period ended 30 June 2016 has been reclassified for consistency with the method of presentation of operating expenses (Note 7) adopted in the Group's consolidated financial statements for the year ended 31 December 2016. The changes in classification are shown below:

Reclassification of operating expenses

	Before reclassification	After reclassification	Difference
Materials	815	863	48
Maintenance	780	886	106
Taxes other than income tax	664	143	(521)
Cleaning and waste management	386	467	81
Public utilities	289	304	15
Transport	251	262	11
Consulting, audit and other services	162	187	25
Rent expenses	140	192	52
Passenger servicing	109	141	32
Staff development and training	103	164	61
Change in legal provision	(1)	-	1
Communication services expense	19	22	3
Certification and licensing	16	24	8
Advertising expenses	9	10	1
Other expenses, net	149	226	77
			-

(Amounts in millions of Russian Rubles, unless otherwise stated below)

5. SEGMENT INFORMATION

Information reported to the chief operating decision maker of the Group ("CODM") for the purposes of resource allocation and assessment of segment performance is focused on the nature of services provided.

The Group's reportable segments are as follows:

Aviation services segment – includes aviation services, such as use of terminal, take-off and landing, and aviation security. Federal Antimonopoly Service of the Russian Federation retains the control and oversight functions in the pricing area of such services.

Auxiliary aviation services segment – includes certain passenger-related services, ground handling, fuelling services, in-flight catering and cargo handling.

Commercial services segment – includes retail concessions and advertising, leasing of other commercial properties, car parking and hotel services.

Segment information is prepared based on IFRS measures.

The performance of each reportable segment is assessed by the CODM by reference to segment operating profit. Segment operating profit is calculated after headquarters expenses have been allocated between the reportable segments.

The key financial information for the Group's segments for the six-month periods ended 30 June 2017 and 2016 is presented below:

		Aviation services	**Auxiliary aviation services**	**Commercial services**	**Inter-segment eliminations**	**Group**
Third-party revenue	**6m 2017**	5,444	10,205	2,691	-	18,340
	6m 2016	5,281	9,711	2,765	-	17,757
Intersegment revenue	**6m 2017**	1,035	106	613	(1,754)	**-**
	6m 2016	1,058	104	363	(1,525)	**-**
Total revenue	**6m 2017**	6,479	10,311	3,304	(1,754)	18,340
	6m 2016	6,339	9,815	3,128	(1,525)	17,757
Operating profit	**6m 2017**	**1,159**	**2,398**	**1,073**	**-**	**4,630**
	6m 2016	**924**	**2,408**	**1,340**	**-**	**4,672**
Depreciation and amortization	**6m 2017**	(815)	(657)	(248)	-	(1,720)
	6m 2016	(736)	(588)	(219)	-	(1,543)
Change in provision for impairment of receivables and advances to suppliers	**6m 2017**	7	(6)	(4)	-	(3)
	6m 2016	(1)	46	(78)	-	(33)

The following is the analysis of the Group's largest customer (10% or more of total revenue):

	Six months ended 30 June			
	2017		**2016**	
	Amount	**%**	**Amount**	**%**
S7 Group	**2,876**	**16%**	**2,749**	**15%**
Auxiliary aviation services segment	1,781		1,774	
Aviation services segment	912		887	
Commercial services segment	183		88	

(Amounts in millions of Russian Rubles, unless otherwise stated below)

Substantially all assets, management and administrative facilities of the Group are located in the Russian Federation and are not separately reported to the CODM. Furthermore, all revenue is earned within the Russian Federation. Accordingly, geographical revenue and asset information is not presented as part of segmental information.

6. REVENUE

	2017	2016
Service revenue		
Ground handling	4,463	4,416
Airport and other related charges	4,087	3,928
Rental income	2,309	2,426
Jet fuelling and storage services	1,399	1,204
Aviation security	1,192	1,127
Parking fees	313	280
Construction revenue	20	85
Other revenue	288	282
Total service revenue	**14,071**	**13,748**
Product revenue		
Jet fuel sales	2,247	2,126
Catering	2,022	1,883
Total product revenue	**4,269**	**4,009**
Total revenue	**18,340**	**17,757**

Rental income includes contingent rentals of RUR 1,694 million and RUR 1,746 million for the six-month periods ended 30 June 2017 and 2016, respectively, and rental income from investment property in the amount of RUR 139 million and RUR 147 million for the six-month periods ended 30 June 2017 and 2016, respectively.

7. OPERATING EXPENSES, NET

	2017	2016
Payroll and related charges:		
Wages and salaries	4,563	4,445
Social taxes	1,282	1,234
Cost of jet fuel	2,156	1,935
Depreciation and amortization	1,720	1,543
Maintenance	996	886
Materials	954	863
Cleaning and waste management	407	467
Transport	258	262
Public utilities	248	304
Staff development and training	248	164
Consulting, audit and other services	199	187
Rent	170	192
Passenger servicing	150	141
Taxes other than income tax	121	143
Certification and licensing	50	24
Communication services expense	21	22
Advertising expenses	19	10
Change in provision for impairment of receivables, advances to suppliers and advances for acquisition of non-current assets	3	33
Aircraft servicing	3	4
Other expenses, net	142	226
Total operating expenses, net	**13,710**	**13,085**

(Amounts in millions of Russian Rubles, unless otherwise stated below)

Maintenance expenses include direct expenses arising from investment property in the amount of RUR 21 million and RUR 47 million for the six-month periods ended 30 June 2017 and 2016, respectively.

8. INTEREST EXPENSE

	2017	2016
Interest expense on five-year USD loan participation notes (series 1)	395	638
Interest expense on five-year USD loan participation notes (series 2)	611	-
Unwind of the discount relating to amounts due to grantor under a concession agreement	174	175
Interest expense on bank loans	77	111
	1,257	**924**
Less: capitalized borrowing cost (Note 10)	(1,082)	(607)
Total interest expense	**175**	**317**

9. INCOME TAX

Interim period income tax is accrued based on the estimated average annual effective income tax rate of 21.61% (2016: 17.55%).

	2017	2016
Current income tax expense	(1,076)	(1,687)
Deferred income tax benefit	61	905
Income tax	**(1,015)**	**(782)**

The increase in the annual effective tax rate in 2017 and in current tax expense during the six-month period ended 30 June 2017 is mostly attributable to lower amount of non-taxable forex differences recognized in the reporting period comparing to the six-month period ended 30 June 2016.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Other	CIP	Total
Cost					
1 January 2016	51,273	9,632	1,319	8,299	70,523
Additions	468	205	18	5,129	5,820
Transfers	630	257	31	(918)	-
Disposals	(6)	(57)	(56)	(134)	(253)
Reclassified from investment property	(5)	-	-	-	(5)
30 June 2016	52,360	10,037	1,312	12,376	76,085
Additions	1,583	415	47	4,923	6,968
Transfers	64	104	22	(190)	-
Disposals	5	(83)	(5)	(37)	(120)
Reclassified from investment property	5	-	-	-	5
31 December 2016	54,017	10,473	1,376	17,072	82,938
Additions	912	372	45	6,175	7,504
Transfers	374	261	16	(651)	-
Disposals	-	(53)	(27)	(10)	(90)
30 June 2017	**55,303**	**11,053**	**1,410**	**22,586**	**90,352**
Accumulated depreciation					
1 January 2016	(8,370)	(6,012)	(978)	-	(15,360)
Depreciation charge	(686)	(473)	(77)	-	(1,236)
Disposals	1	59	54	-	114
30 June 2016	(9,055)	(6,426)	(1,001)	-	(16,482)
Depreciation charge	(703)	(469)	(66)	-	(1,238)
Disposals	11	67	4	-	82
Reclassified from investment property	-	-	-	-	-
31 December 2016	(9,747)	(6,828)	(1,063)	-	(17,638)
Depreciation charge	(838)	(483)	(67)	-	(1,388)
Disposals	-	52	21	-	73
30 June 2017	**(10,585)**	**(7,259)**	**(1,109)**	**-**	**(18,953)**
Net book value					
30 June 2016	**43,305**	**3,611**	**311**	**12,376**	**59,603**
31 December 2016	**44,270**	**3,645**	**313**	**17,072**	**65,300**
30 June 2017	**44,718**	**3,794**	**301**	**22,586**	**71,399**

Buildings consist primarily of passenger and cargo terminals, catering facility, car park and auxiliary buildings.

During the six-month period ended 30 June 2017 additions mainly relate to extension of passenger terminal T-1.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

Construction in-progress (“CIP”) consists mainly of capital expenditures related to the construction of passenger terminals T-1 and T-2.

During the six-month periods ended 30 June 2017 and 2016 the Group capitalized borrowing costs in the amount of RUR 1,082 million and RUR 607 million, respectively.

The weighted average capitalization rate on borrowed funds was 5.9% and 5.8% per annum for the six-month periods ended 30 June 2017 and 2016, respectively.

As at 30 June 2017 there was no Group’s property, plant and equipment amounts that was pledged as collateral for the Group’s borrowings.

Investment property

The Group’s investment property consists of administrative buildings, which are leased to several airlines, and a hotel building.

	30 June 2017	31 December 2016
Cost	711	711
Accumulated depreciation	(179)	(169)
Net book value	**532**	**542**

Fair value of the investment properties as at 30 June 2017 and 31 December 2016 was RUR 6,521 million and RUR 3,757 million, respectively, and has been arrived at on the basis of a valuation carried out at these dates by a professional appraiser with appropriate qualifications and recent experience in the valuation of properties in the relevant locations. Fair value measurement was categorized within Level 3 of the fair value hierarchy.

The valuation was arrived at by reference to the future cash flows, based on the market evidence for similar properties, discounted at an estimated relevant rate.

Advances for acquisition of non-current assets

As of 30 June 2017 and 31 December 2016 advances for acquisition of non-current assets in the amounts of RUR 2,156 million and RUR 2,375 million, respectively, consisted of amounts paid for construction of the passenger terminals and purchases of network servers and baggage-processing systems. The amount of impairment of advances for acquisition of non-current assets amounted to RUR 28 million as of 30 June 2017 and RUR 27 million as of 31 December 2016.

11. INTANGIBLE ASSETS

	30 June 2017	31 December 2016
Concession arrangement (Note 13)	3,560	3,645
Other intangible assets	1,323	1,396
Intangible assets	**4,883**	**5,041**

(Amounts in millions of Russian Rubles, unless otherwise stated below)

12. OTHER NON-CURRENT ASSETS

	30 June 2017	31 December 2016
Restricted cash in FBME bank, net of impairment of RUR 384 million (31 December 2016: RUR 222 million)	1,758	1,805
Other non-current receivable	43	61
Other non-current assets	**1,801**	**1,866**

Restricted cash in FBME bank represents cash balances held by the Group at FBME Bank Ltd., which may not be transferred outside of FBME Bank Ltd. at the discretion of the Group due to restrictions of operations imposed on FBME Bank Ltd. by the US and Cypriot governmental authorities.

There was no major developments in relation to the situation with FBME Bank Ltd. in addition to the information disclosed in the Group's annual consolidated financial statements for 2016. As of the date when this interim condensed consolidated financial information was authorized for issuance the bank was in the process of its liquidation by the Central Bank of Cyprus.

13. CONCESSION ARRANGEMENT

General

In May 1998 the Group entered into a concession arrangement with FGUP "Administration of the Airport Domodedovo" (a state-owned enterprise) for the use of the airfield and related equipment for a term of 75 years. The airfield includes runways, adjacent taxiways, apron and related navigation equipment. The Group is under obligation to repair and maintain the assets. The Group also has the right, but not the obligation, to incur capital expenditures or make improvements to the infrastructure. The grantor is obligated to compensate the Group for the amount of expenses, incurred in the course of making such improvements provided that they are approved by the grantor. At the end of the agreement the assets under the agreement (including the improvements made by the Group and certified by the grantor) revert to the grantor. The profit earned on the construction services (Note 6), related to the capital expenditures and improvements made to the assets, represents a market level margin.

The Group is required to make quarterly payments for the right to use the assets during the term of the agreement. Such payments are set to be revised on a regular basis. The most recent revision took place in December 2012, with the next revision expected in the second half of 2017. The effects and terms of the most recent revision are discussed further in this note.

Amounts due from grantor under a concession agreement

Financial asset related to amounts due from grantor under a concession agreement of RUR 163 million (31 December 2016: RUR 206 million) comprise the amount of receivables from grantor for the improvements made to the property used under the concession agreement. Such amounts are settled on demand, however, the Group does not expect that any significant settlement will be effected within 12 months from the reporting date. Accordingly, the amounts have been classified as non-current assets.

Amounts due to grantor in relation to a concession agreement

Financial liability related to amounts due to grantor in relation to a concession agreement represents the present value of the contractual future payments, discounted at an annual interest rate of 10.6%. The most recent revision of contractual payment terms, which took place in December 2012, resulted in an increase of the future minimum payments and a revised discount rate. The cost of the intangible asset, corresponding to the net present value of the fees payable to the grantor under the arrangement, has been adjusted accordingly (see below).

(Amounts in millions of Russian Rubles, unless otherwise stated below)

The contractual future payments are reconciled to their present value as at 30 June 2017 and 31 December 2016 as follows:

	Future payments		**Present value of future payments**	
	30 June 2017	**31 December 2016**	**30 June 2017**	**31 December 2016**
Due within one year	277	264	263	250
Due after one year but not more than five years	1,392	1,391	1,044	1,044
Due after more than five years	17,741	17,915	2,091	2,091
	19,410	19,570	3,398	3,385
Less future finance charges	(16,012)	(16,185)	-	-
Present value of future payments	**3,398**	**3,385**	**3,398**	**3,385**

14. FINANCE LEASE RECEIVABLE

Presented below is the reconciliation between the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period.

	30 June 2017		**31 December 2016**	
	Minimum lease payments receivable	**Present value of minimum lease payments receivable**	**Minimum lease payments receivable**	**Present value of minimum lease payments receivable**
Due within one year	196	154	185	146
Due after one year but not more than five years	782	223	740	211
Due after more than five years	717	35	770	35
Total gross / net investment in the lease	1,695	412	1,695	392
Less unearned finance income	(1,283)	-	(1,303)	-
Present value of minimum lease payments	**412**	**412**	**392**	**392**

15. INVESTMENTS

Short-term Investments

	30 June 2017	**31 December 2016**
Short-term USD-denominated bank deposits	2,488	-
Other loans	25	27
Total short-term investments	**2,513**	**27**

As of 30 June 2017 the terms of USD-denominated bank deposits placed with UBS AG Bank is six months, with interest rates ranging from 0.69% to 0.83% per annum. As of 31 December 2016 the Group had no USD an EUR-denominated bank deposit.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

16. TRADE AND OTHER RECEIVABLES

	30 June 2017	31 December 2016
Trade receivables, gross	3,599	3,385
Other receivables, gross	905	787
Provision for impairment	(1,493)	(1,482)
Total	**3,011**	**2,690**

17. INVENTORY

	30 June 2017	31 December 2016
Spare parts	603	544
Supplies	325	259
Jet fuel	187	404
Raw materials	117	191
Other inventory	258	243
Total inventory	**1,490**	**1,641**

18. PREPAYMENTS AND OTHER CURRENT ASSETS

	30 June 2017	31 December 2016
VAT receivable	2,796	3,227
Irrevocable letters of credit	649	288
Advances to suppliers	121	139
Other current assets	391	384
Total prepayments and other current assets	**3,957**	**4,038**

19. CASH AND CASH EQUIVALENTS

	30 June 2017	31 December 2016
USD-denominated balances with banks	3,704	9,088
EUR-denominated balances with banks	2,145	-
USD-denominated short-term bank deposits	1,772	2,426
Russian Rouble denominated cash on hand and balances with banks	669	690
EUR-denominated short-term bank deposits	-	2,102
Total cash and cash equivalents	**8,290**	**14,306**

20. EQUITY

Share capital and dividends

Authorized and issued capital as at 30 June 2017 and 31 December 2016 comprises 304,831,519 ordinary shares with par value EUR 1, of which 274,348,367 represent Class A shares and 30,483,152 represent Class B shares. Class A and Class B shares have equal voting rights and rights on liquidation of DME limited, while Class A shares confer on their holder the exclusive right to receive distributions by way of dividend or return of capital. There have been no changes in the share capital of the Company during the period.

During six-month period ended 30 June 2017 dividends of USD 50 million (RUR 2,819 million at the Central Bank of Russia exchange rate as at the declaration date) were declared, out of which USD 16 million (RUR 925 million at the Central Bank of Russia exchange rate as at the payment date) were paid to the shareholders of the Group, USD 34 million (RUR 2,020 million at the Central Bank of Russia exchange rate as at the reporting date) remain payable as at 30 June 2017.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

During six-month period ended 30 June 2016 dividends of RUR 2,193 million were paid to the shareholders of the Group.

Dividends of RUR 150 million distributed and paid during the six-month period ended 30 June 2016 represented distribution to non-controlling shareholders of the Group subsidiaries (nil during the six-month period ended 30 June 2017).

Retained earnings

In accordance with statutory legislation, dividends may only be declared to the shareholders of the Group from accumulated undistributed and unreserved earnings as shown in the Group's individual companies' statutory financial statements. As at 30 June 2017 and 31 December 2016 such earnings amounted to RUR 21,486 million and RUR 20,293 million, respectively.

21. FIVE-YEAR USD LOAN PARTICIPATION NOTES

	Interest rate, %	30 June 2017	31 December 2016
Five-year USD loan participation notes (serie 1)	6%	13,130	13,464
Five-year USD loan participation notes (serie 2)	5.875%	20,706	21,255
Total		**33,836**	**34,719**
Less: interest payable on Five- year loan participation notes and presented as current liability due within twelve months		(398)	(384)
Long-term portion of five-year USD loan participation notes		**33,438**	**34,335**

Covenants

In accordance with the terms of the LPN 1 and LPN 2, the Group is subject to certain covenants, which are calculated on the basis of consolidated financial statements of the Group, prepared in accordance with IFRS. Such financial covenants mainly consist of limitations on the Consolidated Total Debt to Consolidated EBITDA ratio, Consolidated Equity to Consolidated Total Assets ratio and Obligor Cover ratios.

As of 30 June 2017 and 31 December 2016 the Group was in compliance with these covenants.

22. BORROWINGS

	Interest rate, %	30 June 2017	31 December 2016
Loan from Raiffeisen bank	5%	2,529	2,375
Loan from Alamo Limited	-	195	797
Total		**2,724**	**3,172**
Less: current portion due within twelve months and presented as short-term borrowings		(986)	(1,155)
Long-term borrowings		**1,738**	**2,017**

(Amounts in millions of Russian Rubles, unless otherwise stated below)

Covenants

In accordance with the terms loan facility agreement Raiffeisen Bank International AG, the Group is subject to certain covenants, which are calculated on the basis of consolidated financial statements of the Group, prepared in accordance with IFRS. Such financial covenants mainly consist of limitations on the Consolidated Total Debt to Consolidated EBITDA ratio, Consolidated Equity to Consolidated Total Assets ratio, the Obligor Cover Ratios.

In the event of non-compliance with the specified requirements the Group may be required to repay the loans early. The total amount of liabilities to which financial covenants are attached as at 30 June 2017 is RUR 2,529 million (31 December 2016: RUR 2,375 million).

As of 30 June 2017 and 31 December 2016 the Group was in compliance with these covenants.

23. TRADE AND OTHER PAYABLES

	30 June 2017	31 December 2016
Amounts payable for the acquisition of property, plant and equipment	2,817	1,949
Advances received	992	1,235
Trade payables	833	968
Rent deposits received	737	767
Total trade and other payables	**5,379**	**4,919**

24. TAXES OTHER THAN INCOME TAX PAYABLE

	30 June 2017	31 December 2016
Value added tax	727	733
Social insurance tax	424	299
Property tax	12	13
Other taxes	16	43
Total taxes other than income tax payable	**1,179**	**1,088**

25. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	30 June 2017	31 December 2016
Accrued employee expenses	1,805	1,638
Other liabilities	338	265
Total accrued expenses and other current liabilities	**2,143**	**1,903**

Accrued employee expenses as of 30 June 2017 and 31 December 2016 comprised accrued salaries and bonuses of RUR 1,305 million and RUR 1,223 million, respectively, and an accrual for unused vacation of RUR 500 million and RUR 415 million, respectively.

26. FAIR VALUES

The fair values of financial assets and financial liabilities are determined as described in the Group’s annual consolidated financial statements for 2016.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

Except as detailed in the following table management of the Group believes that the carrying value of financial instruments such as cash and cash equivalents, short-term receivables and payables, finance lease receivable, short- and long-term investments, liabilities under concession and borrowings represented by the loan from Raiffeisen bank, which are classified within Level 2 category of the fair value hierarchy, approximates their fair value. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Fair value of financial liabilities

	30 June 2017	31 December 2016
Five-year USD loan participation notes issue 2013	13,133	13,278
Five-year USD loan participation notes issue 2016	20,365	20,025
Total	**33,498**	**33,303**

27. TRANSACTIONS WITH RELATED PARTIES

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

All related parties, except for the parent company, with which the Group entered into significant transactions during the six-month periods ended 30 June 2017 and 2016 or had significant balances outstanding as of 30 June 2017 and 31 December 2016, are considered to be entities under common control.

The following tables provide the total amount of transactions, which have been entered into with related parties during the six-month periods ended 30 June 2017 and 2016 as well as closing balances as at 30 June 2017 and 31 December 2016.

	30 June 2017		31 December 2016	
	Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties
Entities under common control	900	209	795	853
Total	**900**	**209**	**795**	**853**

During six-month period ended 30 June 2017, the Group paid RUR 599 million in cash to partially settle the loan payable to one of the entities under common control.

	30 June 2017			30 June 2016		
	Sales to related parties	Purchases from related parties	Interest income	Sales to related parties	Purchases from related parties	Interest income
Parent entity	-	-	-	-	-	86
Entities under common control	33	61	-	27	81	-

(Amounts in millions of Russian Rubles, unless otherwise stated below)

Compensation of key management personnel

Key management comprised 8 persons as at 30 June 2017 and 9 persons as at 31 December 2016. Total gross compensation (including social insurance tax and before withholding of personal income tax) to those individuals included in payroll and related charges in the consolidated profit or loss amounted to RUR 238 million (including social insurance tax of RUR 34 million) and RUR 308 million (including social insurance tax of RUR 32 million) for the six-month periods ended 30 June 2017 and 2016, respectively. The outstanding balances due to key management personnel amounted to RUR 753 million and RUR 741 million as at 30 June 2017 and 31 December 2016, respectively, and comprised accrued salaries, bonuses, accrual for unused vacation and other monetary benefits.

28. OPERATING LEASES ARRANGEMENTS

The Group as Lessee

The Group leases buildings, certain objects of movable property and land (including the land on which the airfield is located and which the Group leases from the Moscow Region government). The term of the lease of land is 49 years from the inception of lease agreement in May 1998. The amount of lease payments is fixed however it is adjusted by the lessor from time to time.

Future minimum lease payments under contracted operating leases are as follows:

	30 June 2017	**31 December 2016**
Within one year	136	185
In two to five years	391	391
After five years	2,597	2,646
Total minimum lease payments	**3,124**	**3,222**

Included in minimum lease payments within one year are amounts of RUR 1 million and RUR 71 million, which represent the value of lease payments under lease agreements automatically extended for an indefinite term in accordance with the provisions in these agreements as of 30 June 2017 and 31 December 2016, respectively. These agreements can be terminated by either lessor or lessee by notification of the other party one month before termination.

The Group as Lessor

Rental income earned by the Group is set out in Note 6.

The future minimum lease payments representing fixed part of the rentals under contracted operating leases for the year 2017 amount to RUR 1,318 million.

(Amounts in millions of Russian Rubles, unless otherwise stated below)

29. COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Capital commitments

The Group's contracted capital commitments related to construction of passenger and cargo terminals and modernization of existing assets as of 30 June 2017 and 31 December 2016 consisted of the following:

	30 June 2017	31 December 2016
Reconstruction and expansion of passenger terminal	29,818	25,782
Design of multilevel parking	1,620	1,720
Reconstruction and expansion of cargo terminal	455	1,703
Reconstruction of office buildings	60	75
Construction of aircraft maintenance hangar	29	50
Reconstruction of fuel storage facilities	13	43
Construction of warehousing facilities	11	30
Construction of electric power plant	-	2
Other	391	582
Total capital commitments	**32,397**	**29,987**

Operating environment of the Group

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

The government of the Russian Federation directly affects the Group's operations through regulation of airport charges and other operating activities of the airports in Russia. According to current Russian legislation, certain infrastructure items may not be privately owned and must remain federal property. With respect to the Group, which operates under a long-term concession arrangement (see Note 13), such infrastructure items include the airfield, runways, adjacent taxiways, apron and certain navigation equipment. The contractual agreement regulating the relationship between the government and operators of such infrastructure items in Russia may not be as detailed and comprehensive as the contractual agreements governing similar infrastructure assets in more developed countries. Terms of contractual agreements between the government and infrastructure operators are not standardized, and may vary substantially from one arrangement to another. As laws and regulations evolve, develop or otherwise change in the future, the lease agreement between the Group and the government may change significantly.

In addition, because of its importance to the public, the airport attracts a significant amount of political attention. The Group is subject to a high level of scrutiny from public officials and may from time to time be subject to government reviews, public commentary and investigations. Furthermore, the overall legal environment for private business in the Russian Federation is such that there exists a possibility that government bodies and regulatory agencies may take differing views on whether or not a given private business has complied with the relevant laws and regulations. Effects of such non-compliance may vary from administrative penalties and fines to criminal prosecution. The Group's management believes that it has properly complied with all relevant regulations and applicable laws.

Taxation

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting business continue to change rapidly. These changes are characterized by unclear wording which leads to different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued for all taxes that are applicable. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses may have more than one interpretation, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is continually evolving. The Group periodically evaluates its obligations under environmental regulations. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that the Group has met the government's federal and regional requirements concerning environmental matters. Therefore, there are no significant liabilities for environmental damage or remediation.

Legal proceedings

During the six-month period ended 30 June 2017, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which management believes could have a material effect on the result of operations or financial position of the Group.

30. SUBSEQUENT EVENTS

New loan facility agreement with ING bank – On 16 May 2017 the Group entered into a EUR-denominated eight-year loan facility agreement for the total amount of EUR 58,9 million provided by ING bank to finance installation of a baggage handling system in the new segment of Terminal 2. The floating interest rate is EURIBOR + 1.2% per annum with interest being paid semi-annually. During July – August 2017, the Group drew down on the first tranche amounting to EUR 3,2 million.

Dividends – On 17 of July 2017 dividends of EUR 31,5 million (RUR 2,157 million) were declared.

Loan issued to a related party – On 19 of July 2017, the Group issued EUR 20 million as a loan to its ultimate parent entity bearing a fixed interest rate of 3,2% per annum and repayable by 31 October 2017.

Deterioration of financial position of a significant customer – During September 2017, VIM-AVIA airline, which was based at the airport Domodedovo, began to experience severe financial difficulties which resulted in many flights being delayed or cancelled, intervention of a regulator and effective cessation of the company's operations as a business. However, as of the date of authorization of this consolidated financial information bankruptcy process has not yet been initiated. As the majority of the services provided by the Group to this airline were on a prepayment basis, the immediate financial impact on the Group is expected to be limited.